# *Annual Report 1949*

INTERSTATE DEPARTMENT STORES, INC.

# INTERSTATE DEPARTMENT STORES, INC.

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## DIRECTORS

| | |
|---|---|
| Robert S. Adler | Eaton B. Lloyd |
| Russell P. Bygel | Harold F. Linder |
| Sol W. Cantor | Benjamin W. Mayer |
| Charles E. Federman | Albert Parker |
| Paolino Gerli | Herbert J. Reeves |
| R. C. Kramer | Harold J. Szold |

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## OFFICERS

| | |
|---|---|
| *Chairman of the Board* | R. C. Kramer |
| *President* | Russell P. Bygel |
| *Vice President* | Sol W. Cantor |
| *Vice President* | Eaton B. Lloyd |
| *Treasurer* | Paul I. Bertram |
| *Secretary* | Albert Parker |
| *Assistant Secretary* | Edward C. Schenkel |

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| | | |
|---|---|---|
| *Transfer Agent* | Bank of the Manhattan Company | New York |
| *Registrar* | The Commercial National Bank and Trust Company | New York |
| *General Counsel* | Parker, Chapin and Flattau | New York |
| *Public Accountants* | S. D. Leidesdorf & Co. | New York |
| *Executive and General Offices* | 111 Eighth Avenue | New York |

April 10, 1950.

*To the Stockholders of*

INTERSTATE DEPARTMENT STORES, INC.:

This is the report of Interstate Department Stores, Inc. and its subsidiaries for the fiscal year ended January 31, 1950. The year's operations and a comparison of those results with the previous fiscal year are summarized as follows:

| | Fiscal Year Ended January 31, 1950 | Fiscal Year Ended January 31, 1949 |
|---|---|---|
| Sales | $61,752,000 | $66,886,900 |
| Earnings before Federal Income Tax | 1,885,900 | 2,700,700 |
| Provision for Federal Income Tax | 725,000 | 1,110,000 |
| Net Earnings | 1,160,900 | 1,590,700 |
| Earnings per share common stock | 3.76 | 5.15 |
| Dividends paid per share common stock | 2.00 | 2.00 |
| Stockholders' Equity per share common stock | 35.13 | 33.38 |

**EARNINGS:** Earnings of $1,160,000 after Federal Income Taxes or $3.76 per share of common stock, were $430,000 less than the previous year's earnings. The decrease in earnings resulted from lower dollar sales and abnormally high losses caused by the decline in prices, particularly of textiles, during the first six months of the year.

Earnings for the past five years have been as follows:

| Fiscal Year Ended January 31 | Earnings Before Federal Income Tax | Provision For Federal Income Tax | Earnings After Federal Income Tax |
|---|---|---|---|
| 1950 | $1,885,900 | $ 725,000 | $1,160,900 |
| 1949 | 2,700,700 | 1,110,000 | 1,590,700 |
| 1948 | 2,388,000 | 961,000 | 1,427,000 |
| 1947 | 2,460,100 | 1,050,000 | 1,410,100 |
| 1946 | 2,972,700 | 1,917,000 | 1,055,700 |

**SALES:** Sales decreased $5,100,000 or 7.7% from the preceding year. This decrease was due principally to the elimination of $1,500,000 of the sales volume of two stores which had been closed early in the year and to the decline in prices,

which, in turn, reduced the average amount of each sale. However, the number of customer purchases increased 3% for the year.

Consolidated sales for the past five years have been as follows:

| Fiscal Year Ended | Owned Departments | Leased Departments | Total |
|---|---|---|---|
| 1950 | $52,015,800 | $9,736,200 | $61,752,000 |
| 1949 | 57,179,300 | 9,707,600 | 66,886,900 |
| 1948 | 52,893,500 | 9,920,400 | 62,813,900 |
| 1947 | 46,502,700 | 5,817,300 | 52,320,000 |
| 1946 | 38,995,700 | 5,331,900 | 44,327,600 |

Total owned department sales decreased while sales in departments leased to others increased slightly last year. This apparent difference in trend was due to the fact that a department formerly operated by the Company was leased to others for operation, and because new departments were added to certain stores and leased to others for operation.

Sales will be adversely affected to the extent of $550,000 in 1950 because the Company discontinued a leased grocery department on December 31, 1949. The discontinuance of this department will have no significant effect on earnings.

**DIVIDENDS:** Four quarterly dividends of 50¢ each for a total of $2.00 per share of common stock were paid during the year, which was the same amount paid in the two preceding years. The regular quarterly dividend of 50¢ per share for the first quarter of the current fiscal year will be paid on April 14th.

**WORKING CAPITAL:** Net working capital at year end was $11,900,000, an increase of $500,000 over the previous year.

The principal change in the composition of the Company's working capital is the increase of $1,400,000 in net accounts receivable, which arises from the sharp increase in sales made in various forms of installment buying. This increase in turn reflects the larger amount of sales made by your Company of "hard lines", i.e., electrical refrigerators and other major appliances, television sets, furniture and other similar items.

The Company's credit experience with installment accounts receivables thus far has been satisfactory. Nevertheless, the Company continues to follow a cautious policy in regard to the valuation of its accounts receivable and at year end carried a reserve of $618,000 against these accounts.

Inventories declined $320,000 or 3.4% and are in good condition.

**LONG TERM DEBT:** Long term debt decreased $77,000. Repayments to Banks and to Insurance Companies were partially offset by the amounts realized from mortgages placed on two store buildings that were acquired in 1948.

**FIXED ASSETS:** Net fixed assets increased $320,000. Your Company continued to spend sizeable sums of money on the physical improvement of its stores, $800,000 having been expended for capital store improvements and $400,000 for current maintenance.

Depreciation and amortization in 1949 increased by $107,000 to the amount of $500,000. It is expected that in 1950 cash outlays for permanent improvement of the Company's present stores will not be substantially greater than depreciation and amortization accruals.

**STORES OPENED AND CLOSED:** A store was opened in Huntington, Indiana in March, 1949 and a small store in Niles, Michigan was closed in April, 1949. The Company is looking for opportunities to open additional stores and it will do so as opportunities are presented that give promise of profitable operation.

**ASSET VALUE OF COMMON STOCK:** The net asset value of the common stock of the Company as shown by its balance sheet was $35.13 per share at year end. The net asset value, earnings and dividends per share of common stock for the past five years has been as follows:

| As at January 31 | Asset Value Per Share | Earnings Per Share | Dividends Per Share |
|---|---|---|---|
| 1950 | $35.13 | $ 3.76 | $ 2.00 |
| 1949 | 33.38 | 5.15 | 2.00 |
| 1948 | 30.23 | 4.62 | 2.00 |
| 1947 | 27.61 | 4.56 | 1.70 |
| 1946 | 24.74 | 3.42 | 1.40 |

**OUTLOOK:** Retail sales during the first six months of the current year are not expected to decline much, if any, below 1949 levels. Prices are lower than last Spring's sales prices and, therefore, a further increase in customer sales will have to be made to equal last year's sales dollar volume.

While some fluctuations in price of goods purchased will continue, it is not expected that there will be a recurrence of the wide breaks in prices experienced last Spring which contributed to the Company's lower earnings.

The principal opportunity for your Company is constantly to improve its operations so as to secure at a low cost an increasing share of the type of desirable retail business which is available in its communities. Much study has been given to this problem and many experiments have been undertaken in this past year which show promise of achieving this aim.

**AMENDMENTS TO CERTIFICATE OF INCORPORATION:** The Board of Directors has proposed two amendments to the Certificate of Incorporation to be voted upon at the Annual Meeting. One is to increase the number of authorized shares of common stock from 320,000 to 500,000. This would provide the Company with additional stock that could be used for various corporate purposes such as acquisitions of additional units, further capital financing and stock dividends. Although the Company has no intention at the present time of issuing or selling any additional stock, it is thought advisable to have the stock available for such purposes.

The second proposed amendment would make the unissued shares of the common stock more readily available for issuance by eliminating the legal necessity of offering to stockholders the right to subscribe for any new or additional issue of the Company's securities before issuance to others. The adoption of this amendment will not prevent giving stockholders the first opportunity to subscribe for any securities which may hereafter be offered if in the judgment of the Board of Directors that is deemed to be in the best interests of the Company and the stockholders.

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Your Directors express their appreciation to the 3000 employees of the Company and its subsidiaries for their fine cooperation in a year that presented many difficulties and for their continuous efforts to improve further the Company's operations.

For the Board of Directors,

R. C. Kramer
*Chairman*

Russell P. Bygel
*President*

INTERSTATE DEPART

AND SUBSIDIAI

CONSOLIDATED BALANCE SHEET

## ASSETS

| | | 1950 | | 1949* |
|---|---|---|---|---|
| **Current Assets:** | | | | |
| Cash on hand and in banks ........ | | $ 1,382,168 | | $ 1,619,159 |
| United States Treasury savings notes —at cost, plus accrued interest.... | | — | | 61,684 |
| Accounts receivable: | | | | |
| Customers (Note A) ............ | $ 5,320,033 | | $ 3,741,893 | |
| Less: Reserves (Note A) ...... | 617,920 | 4,702,113 | 454,829 | 3,287,064 |
| Other ...................... | | 389,849 | | 477,465 |
| Merchandise inventories (Note B) .. | | 9,193,624 | | 9,515,296 |
| Total Current Assets ..... | | 15,667,754 | | 14,960,668 |
| **Miscellaneous Other Assets** ...... | | 53,925 | | 245,763 |
| **Fixed Assets**—at cost: | | | | |
| Land and buildings (subject to mortgages per contra) .............. | 381,378 | | 381,087 | |
| Less: Reserves for depreciation | 20,793 | | 10,131 | |
| | 360,585 | | 370,956 | |
| Furniture and equipment .......... | 2,841,534 | | 2,461,366 | |
| Less: Reserves for depreciation | 1,030,617 | | 835,933 | |
| | 1,810,917 | | 1,625,433 | |
| Leaseholds and leasehold improvements ..................... | 1,443,360 | | 1,103,534 | |
| Less: Reserves for amortization | 576,585 | | 380,158 | |
| | 866,775 | 3,038,277 | 723,376 | 2,719,765 |
| **Deferred Charges** ................ | | 303,521 | | 427,466 |
| | | $19,063,477 | | $18,353,662 |

* Reclassified for co

The Notes to Financial Statements are an integral part of

MENT STORES, INC.

RY COMPANIES

AS AT JANUARY 31, 1950 - 1949

## LIABILITIES

| | 1950 | | 1949* | |
|---|---|---|---|---|
| **Current Liabilities:** | | | | |
| Accounts payable—trade .......... | | $ 2,332,640 | | $ 1,884,272 |
| Accrued expenses and sundry other liabilities .................... | | 1,040,660 | | 1,285,772 |
| Taxes withheld and accrued taxes other than Federal income taxes .. | | 334,318 | | 380,268 |
| Accrued Federal income taxes ...... | $ 778,509 | | $ 1,240,401 | |
| Less: United States Treasury savings notes—at cost, plus accrued interest ........... | 751,200 | 27,309 | 1,240,401 | — |
| Total Current Liabilities... | | 3,734,927 | | 3,550,312 |
| **Long Term Debt:** | | | | |
| Notes payable (Note C) .......... | 4,150,000 | | 4,425,000 | |
| Mortgages payable ............... | 198,169 | 4,348,169 | — | 4,425,000 |
| Total Liabilities ........ | | 8,083,096 | | 7,975,312 |
| **Deferred Income—Carrying Charges** | | 126,130 | | 67,129 |
| **Stockholders' Equity** (Note C) .... | | 10,854,251 | | 10,311,221 |
| **Lease Commitments** (Note D) | | | | |
| | | $19,063,477 | | $18,353,662 |

mparative purposes.

this statement and should be read in conjunction herewith.

# INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED JANUARY 31, 1950 - 1949

| | 1950 | 1949* |
|---|---|---|
| NET SALES: | | |
| Owned departments | $52,015,800 | $57,179,350 |
| Leased departments | 9,736,279 | 9,707,644 |
| | 61,752,079 | 66,886,994 |
| COST OF SALES, operating and administrative expenses, including depreciation and amortization of $495,935 for 1950 and $388,986 for 1949 | 59,845,852 | 64,141,839 |
| | 1,906,227 | 2,745,155 |
| OTHER INCOME, NET | 144,833 | 92,740 |
| | 2,051,060 | 2,837,895 |
| INTEREST PAID | 165,138 | 137,195 |
| NET EARNINGS FOR THE YEAR BEFORE FEDERAL INCOME TAXES | 1,885,922 | 2,700,700 |
| PROVISION FOR FEDERAL INCOME TAXES | 725,000 | 1,110,000 |
| NET EARNINGS FOR THE YEAR | $ 1,160,922 | $ 1,590,700 |

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE YEAR ENDED JANUARY 31, 1950 - 1949

| | | 1950 | 1949* |
|---|---|---|---|
| EARNINGS PREVIOUSLY RETAINED IN THE BUSINESS (EARNED SURPLUS) | | $ 6,815,020 | $ 5,842,212 |
| NET EARNINGS FOR THE YEAR | | 1,160,922 | 1,590,700 |
| | | 7,975,942 | 7,432,912 |
| CASH DIVIDENDS PAID | | 617,892 | 617,892 |
| EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT THE END OF THE YEAR | | 7,358,050 | 6,815,020 |
| CAPITAL SURPLUS | | 1,915,949 | 1,915,949 |
| COMMON STOCK—without par value: | | | |
| Authorized | 320,000 shares | | |
| Issued and outstanding | 308,946 shares | 1,580,252 | 1,580,252 |
| STOCKHOLDERS' EQUITY (Note C) | | $10,854,251 | $10,311,221 |

* Reclassified for comparative purposes.

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

# INTERSTATE DEPARTMENT STORES, INC.

## AND SUBSIDIARY COMPANIES

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### NOTES TO FINANCIAL STATEMENTS

### AS AT JANUARY 31, 1950

Note A—As at February 1, 1949, accounts receivable—customers aggregating $104,597 previously written off as doubtful were reinstated, a reserve in full being provided. As similar accounts at January 31, 1950, fully reserved, are included as at that date, the accounts receivable—customers and reserves as at January 31, 1949, shown for comparative purposes only, have been adjusted to include the accounts reinstated and the reserves provided as at February 1, 1949.

Note B—Merchandise inventories as at January 31, 1950, which include merchandise in transit in the amount of $978,622, are stated on the following bases which are consistent with those used in the preceding year:

At Stores —At the lower of cost or market, as calculated by the retail method of inventory valuation, after provision for markdowns based on age of merchandise.

At Warehouses—At the lower of cost (substantially on the "first-in, first-out" basis) or replacement market.

In Transit —At specific invoice cost.

Note C—Notes payable as at January 31, 1950 are due to:

| | |
|---|---|
| Banks | $1,300,000 |
| Insurance Company | 2,850,000 |
| | $4,150,000 |

The bank term loan agreement requires amortization payments as follows: $200,000 in each of the years 1952 through 1954 inclusive and the balance of $700,000 at maturity of the bank notes on August 27, 1955. The payments due August 27, 1950 and 1951 were paid in advance, with the result that no installment is due until 1952.

The loan agreement with an insurance company requires amortization payments as follows: $75,000 per annum until 1955, $200,000 per annum from 1956 through 1958, $325,000 in 1959, $350,000 per annum from 1960 through 1962, and $500,000 in 1963. The payment due May 1, 1950 was paid in advance, with the result that no installment is due until 1951.

The insurance company loan agreement, as does the bank term loan agreement, contains restrictions on the right of the Company to declare dividends (other than stock dividends), including a requirement that the Company have certain ratios (of consolidated net current assets and of consolidated net tangible assets to consolidated funded debt) after payment of such dividends. As at January 31, 1950, $1,815,838 of the Company's surplus ($9,273,999) was not subject to the dividend restrictions contained in the loan agreements.

Note D—At January 31, 1950, the minimum annual rentals upon property leased to the Company and/or to its subsidiary companies under 60 leases expiring after January 31, 1953, amount to approximately $1,025,000, plus real estate taxes, insurance, etc.

General—The accompanying financial statements are subject to final determination of Federal, state and local taxes. Federal income tax returns have been examined through the fiscal year ended January 31, 1947 and all additional assessments thereon have been paid.

# INTERSTATE DEPARTMENT STORES, INC.

## AND SUBSIDIARY COMPANIES

### ACCOUNTANTS' REPORT

To the Board of Directors

INTERSTATE DEPARTMENT STORES, INC.

New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1950 and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1950, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. Leidesdorf & Co.

New York, N. Y.

March 31, 1950

# LOCATION AND NAME OF STORES

CONNECTICUT

New Haven .................... Stanley's

ILLINOIS

Aurora ............ Aurora Dry Goods Co.
Belleville ................. Carroll House
Decatur ........... Decatur Dry Goods Co.
Peoria ............. Peoria Dry Goods Co.
Rockford ........ Rockford Dry Goods Co.
Springfield ..... Springfield Dry Goods Co.
Waukegan ...... Waukegan Dry Goods Co.

INDIANA

Anderson .......................... Hill's
Evansville .......... Economy Dept. Store
Evansville ...... Evansville Dry Goods Co.
Fort Wayne ............... Grand Leader
Huntington ............... Carroll House
Marion ............................ Hill's
Muncie ...................... Stillman's
South Bend ............... Grand Leader

IOWA

Davenport ........................ Hill's
Des Moines ....................... Hill's

KENTUCKY

Louisville .........Jefferson Dry Goods Co.
Paducah ......... Paducah Dry Goods Co.

MICHIGAN

Battle Creek ............... Grand Leader
Flint .......................... The Fair
Jackson ..................... Stillman's
Lansing .......... Lansing Dry Goods Co.
Port Huron ............... Carroll House

NEW YORK

Troy .......................... Stanley's
Utica ...................... Boston Store

OHIO

Akron ...................... Federman's
Springfield ................ Boston Store

PENNSYLVANIA

Muncy .................... Carroll House
Reading ........................ Read's
Williamsport ............. Carroll House
York ......................... Stillman's

TENNESSEE

Knoxville ........... Knox Dry Goods Co.

VIRGINIA

Staunton ................. Carroll House

WEST VIRGINIA

Huntington .....Huntington Dry Goods Co.

WISCONSIN

Edgerton ................. Carroll House
Fond du Lac .. Fond du Lac Dry Goods Co.
Green Bay ........................ Hill's
Hartford ................. Carroll House
Madison ......................... Hill's
Milwaukee ....................... Hill's
Racine ............ Racine Dry Goods Co.
Sheboygan ..... Sheboygan Dry Goods Co.
Stoughton ................ Carroll House
West Bend ................ Carroll House

*This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.*